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MUNICIPAL INCOME TAXES: A Selected Bibliography

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MUNICIPAL INCOME TAXES:
A SELECTED BIBLIOGRAPHY

by

Anthony G. White

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How to equitably obtain the revenue needed to provide public goods and services has always been a problem to democratic or representative governments. An additional problem at the local level has been the question of how to enable nonresidents, who visit or work in a city and who use the available facilities and services, to contribute monitarily to the maintenance of those facilities and services.

Since a government cannot tax property outside of its jurisdiction, property taxes provide an escape for the suburban-minded individual who would rather pay a low two-special-district property tax than a single-city higher one. Sales taxes, more often than not (a) are not authorized to municipalities; or (b) cannot pay for many public services such as police and fire protection; and (c) tend to be regressive, to hit the poor the hardest.

Instead of using property or purchasing power as a measure of wealth to tax, some cities have turned to the income tax as a major source of income. About one percent (1%) of the cities in the United States impose a municipal income tax.

First of the U.S. cities' income taxes was levied in the early 1800's by Charleston, South Carolina, a tax which was repealed after less than fifty years' use. New York City had a brush with its useage in 1934, but the taxing authority was repealed in 1935 after having never been exercised.

The oldest modern municipal income tax - also called an earnings tax, earned income tax, wage tax, wage and income tax, and income and net profits tax - still in force today was instituted by Philadelphia in 1939 by ordinance, thus essentially saving the city from bankruptcy. In the same year, Washington, D.C. imposed an income tax, although the operational characteristics of its program more nearly approximates that of a state income tax than a municipal one.

The following table indicates the distribution, by state, of cities over 25,000 in population which impose income taxes:

Distribution by State of Cities of 25,000 or Over Population Imposing Income Taxes

State	Number of Cities	Rate(s)	Year First Used
Alabama	1	2.0%	1956
Kentucky	7	1%/1¼%/1½%/2.0%	1948
Maryland	1	0.2-1.0%graduated	1966
Michigan	7	1.0%	1962
Missouri	2	0.5/1.0%	1948
New York	1	0.4-2.0%graduated	1966
Ohio	33	0.5/0.6/0.7/1.0/1.5%	1946
Pennsylvania	21	0.5/1.0/2.0%	1939

In total, over 170 cities use the municipal income tax as a revenue source.

In general, city income taxes are imposed as a low, flat rate. However, variations existant allow deductions and exemptions, and the exceptions of New York and Baltimore provide for a graduated taxing scale.

Attractive though the local income tax may be, many states prohibit local imposition of such taxes either through constitutions or by statute. Then, too, such schemes can be subject to voter approval, at best a fickle group.

It would do the reader well, then, to head the words of the Tax Foundation (City Income Taxes, New York, 1967, page 40):

> In weighing the feasibility of introducing an income tax, a city faces a host of questions. It must attempt to evaluate the alternative merits of income versus non-income taxes within the framework of its particular economic, political, and social environment. Questions as to the most appropriate form of income tax to meet a city's need complicate the already difficult evaluation process. Such problems as the relative burden of alternative tax policies on individuals in various income groups or on varying types of business firms deserve careful attention, not only in terms of fairness but from the point of view of the long-range effects on the city's economy which might result from taxpayer adjustments. . .

All of which boils down to, of course, going to the desk and getting out last year's IRS Form 1040. . .

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